

**KELLOGGSVILLE  
PUBLIC SCHOOLS  
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2006

**KELLOGGSVILLE PUBLIC SCHOOLS**  
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Year ended June 30, 2006

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## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

August 11, 2006

The Board of Education  
Kelloggsville Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Kelloggsville Public Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Kelloggsville Public Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006 on our consideration of Kelloggsville Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kelloggsville Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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As management of the Kelloggsville Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

**District-wide Statements**

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**Condensed District-Wide Financial Information**

The Statement of Net Assets provides financial information on the District as a whole.

|   | <u><b>2006</b></u>          | <u><b>2005</b></u>          |
|---|-----------------------------|-----------------------------|
| <b>Assets</b>                                   |                             |                             |
| Current assets                                  | \$ 6,992,875                | \$ 7,726,767                |
| Net capital assets                              | <u>27,751,243</u>           | <u>27,769,932</u>           |
| <b>Total Assets</b>                             | <u><b>34,744,118</b></u>    | <u><b>35,496,699</b></u>    |
| <b>Liabilities</b>                              |                             |                             |
| Current liabilities                             | 3,304,368                   | 2,893,342                   |
| Long-term liabilities                           | <u>15,907,093</u>           | <u>17,822,891</u>           |
| <b>Total Liabilities</b>                        | <u><b>19,211,461</b></u>    | <u><b>20,716,233</b></u>    |
| <b>Net Assets</b>                               |                             |                             |
| Invested in capital assets, net of related debt | 10,962,243                  | 9,338,692                   |
| Restricted                                      | 79,488                      | 580,713                     |
| Unrestricted                                    | <u>4,490,926</u>            | <u>4,861,061</u>            |
| <b>Total Net Assets</b>                         | <u><b>\$ 15,532,657</b></u> | <u><b>\$ 14,780,466</b></u> |

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2006**

The Statement of Activities presents changes in net assets from operating results:

|                                       | <u>2006</u>                 | <u>2005</u>                 |
|---------------------------------------|-----------------------------|-----------------------------|
| <b>Program Revenues</b>               |                             |                             |
| Charges for services                  | \$ 385,872                  | \$ 425,757                  |
| Operating grants                      | 4,076,339                   | 3,475,997                   |
| <b>General Revenues</b>               |                             |                             |
| Property taxes                        | 5,960,880                   | 5,895,251                   |
| State school aid, unrestricted        | 10,905,859                  | 10,534,906                  |
| Interest earnings                     | 215,741                     | 99,166                      |
| Other                                 | 74,079                      | 72,023                      |
| <b>Total Revenues</b>                 | <u>21,618,770</u>           | <u>20,503,100</u>           |
| <b>Expenses</b>                       |                             |                             |
| Instruction                           | 11,946,669                  | 11,348,021                  |
| Supporting services                   | 6,682,726                   | 5,885,524                   |
| Community services                    | 214,849                     | 204,555                     |
| Food service                          | 894,310                     | 851,005                     |
| Athletics                             | 392,148                     | 374,343                     |
| Other                                 | —                           | 3,479                       |
| Interest on long-term debt            | 731,359                     | 936,573                     |
| Depreciation - unallocated            | 4,519                       | 4,657                       |
| <b>Total Expenses</b>                 | <u>20,866,579</u>           | <u>19,608,157</u>           |
| Increase in net assets                | 752,191                     | 894,943                     |
| <b>Net Assets - Beginning of Year</b> | <u>14,780,466</u>           | <u>13,885,523</u>           |
| <b>Net Assets - End of Year</b>       | <u><u>\$ 15,532,657</u></u> | <u><u>\$ 14,780,466</u></u> |

**Financial Analysis of the District as a Whole**

The District's financial position is the product of many factors. Growth during the year in grants, categorical funding and student count were significant contributors to revenue increases. A mid-year pro-ration in state aid was also a factor in reducing anticipated state aid revenues.

Property taxes and state aid accounted for most of the District's revenue, contributing about 78 cents of every dollar raised. Another 19 percent came from state and federal aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (69 percent).

- Total revenues surpassed expenses, increasing net assets \$752,191 from the prior year. Appropriate budget controls in place along with increased state aid and property taxes contributed to this.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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- The cost of all governmental activities this year was \$20,866,579.
- Some of the costs were financed by the users of the District's programs totaling \$385,872.
- The federal and state governments subsidized certain programs with grants and contributions of \$4,076,339.
- The balance of the District's costs were financed by District taxpayers, state school aid and interest earnings, totaling \$17,156,559.
- This portion of governmental activities was financed with \$5,960,880 of property taxes, \$10,905,859 of unrestricted state aid based on the statewide education aid formula and investment earnings of \$215,741.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Financial Analysis of the District's Funds**

The District uses funds to record and analyze financial information. Kelloggsville Public School's funds are described as follows:

**Major Fund**

General Fund

The General Fund is our primary operating fund. The General Fund had total revenues of \$18,614,166, other financing sources of \$262,134, total expenditures of \$18,801,314, and total other financing uses of \$246,000. It ended the fiscal year with a fund balance of \$4,936,035, down from \$5,107,049 at June 30, 2005.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Nonmajor Funds**

Special Revenue Funds

The District operates three Special Revenue Funds, for the food service, athletic and child care programs. Total revenue of all special revenue funds was \$950,986, with total expenditures of \$1,281,751, and total other financing sources of \$246,000. Of the ending fund balances, \$13,969 is attributable to the Food Service Fund, \$4,094 is attributable to the Athletic Fund and \$5,286 is attributable to the Child Care Fund.

Debt Service Funds

The District operates three Debt Service Funds. Total revenues were \$2,067,408 and total expenditures were \$2,053,896. The ending fund balances totaled \$148,341.

Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of the District's students. Balances on hand at June 30, 2006 totaled \$291,042.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget three times to comply with Michigan Department of Education guidelines. These budget amendments fall into two categories:

- Changes made in December to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes in May and final changes in June for increases in appropriations to prevent budget overruns.
- On the District's final amended budget anticipated expenditures exceeded revenues by \$93,621. Appropriate budget controls in place along with the sale of property contributed to this.
- Actual revenues were \$77,524 higher than expected, due largely to increased investment interest and Medicaid revenues.
- Final actual expenditures exceeded budgeted expenditures by \$154,917 due to capital projects and other pre-planned expenditures paid at the end of the fiscal year.

**Capital Asset and Debt Administration**

Capital Assets

By the end of 2006, the District had a \$36,443,782 investment in a broad range of capital assets, including school buildings, athletic facilities, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the notes to basic financial statements.)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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Capital asset purchases totaled \$612,339 for the fiscal year with accumulated depreciation increasing \$631,028. The net book value of capital assets at June 30, 2006 is detailed as follows:

|                           |                                    |
|---------------------------|------------------------------------|
| Land                      | \$ 11,733,002                      |
| Land improvements         | 508,310                            |
| Buildings and additions   | 14,921,623                         |
| Furniture and equipment   | 297,228                            |
| Vehicles                  | <u>291,080</u>                     |
| <b>Net Capital Assets</b> | <b><u><u>\$ 27,751,243</u></u></b> |

Long-Term Debt

At year end, the District had \$17,293,867 in general obligation bonds and other long-term debt outstanding – a net reduction of \$1,711,104 from last year.

- In August, 2005 the District advance refunded a portion of the 1998 outstanding bond issues to take advantage of lower interest rates – the refunding resulted in a net present value savings of \$589,233 over the life of the new bond issue

The District's bond rating for General Obligation, Unlimited Tax debt is "Aaa". The District's other obligations include an installment purchase agreement, and staff related retirement incentives and compensated absences. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The State of Michigan did not implement a pro-ration for fiscal year 2006-07 and the funding per pupil increased to \$7,085. However, even with increased funding, the constraints of retirement and health care costs exceed the increase in funding levels.
- The continual increase in retirement and health care rates is being monitored closely for appropriate future budget planning. The preparation for large percentage increases in the 2007-08 school year is being implemented.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kelloggsville Public Schools, 242 – 52nd Street, Kentwood, MI, 49508.

## **BASIC FINANCIAL STATEMENTS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2006**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                       |                                    |
| <b>Current Assets</b>                               |                                    |
| Cash  | \$ 300                             |
| Cash equivalents, deposits and investments (Note B) | 4,285,285                          |
| Receivables:  |                                    |
| Taxes (Note C)                                      | 264,552                            |
| Accounts  | 16,988                             |
| Due from other governmental units (Note C)          | 2,415,852                          |
| Inventory (Note A)                                  | 9,898                              |
| <b>Total Current Assets</b>                         | <u>6,992,875</u>                   |
| <b>Noncurrent Assets</b>                            |                                    |
| Capital assets (Note E)                             | 36,443,782                         |
| Less accumulated depreciation                       | (8,692,539)                        |
| <b>Total Noncurrent Assets</b>                      | <u>27,751,243</u>                  |
| <b>Total Assets</b>                                 | <u>34,744,118</u>                  |
| <b>Liabilities</b>                                  |                                    |
| <b>Current Liabilities</b>                          |                                    |
| Accounts payable                                    | 160,137                            |
| Due to other governmental units                     | 386,413                            |
| Accrued interest payable                            | 133,281                            |
| Salaries payable                                    | 1,133,389                          |
| Compensated absences                                | 21,614                             |
| Current portion of long term obligations            | 1,469,534                          |
| <b>Total Current Liabilities</b>                    | <u>3,304,368</u>                   |
| <b>Noncurrent Liabilities</b> (Notes A, F)          |                                    |
| General obligation bonds payable                    | 16,365,000                         |
| Durant non-plaintiff bonds payable                  | 135,160                            |
| Note payable  | 123,167                            |
| Installment purchase agreement payable              | 82,914                             |
| Severance pay                                       | 107,377                            |
| Accumulated sick leave                              | 480,249                            |
| Unamortized bond premium                            | 82,760                             |
| Current portion of long term obligations            | (1,469,534)                        |
| <b>Total Noncurrent Liabilities</b>                 | <u>15,907,093</u>                  |
| <b>Total Liabilities</b>                            | <u>19,211,461</u>                  |
| <b>Net Assets</b>                                   |                                    |
| Invested in capital assets, net of related debt     | 10,962,243                         |
| Restricted for:                                     |                                    |
| Debt service  | 79,488                             |
| Unrestricted  | 4,490,926                          |
| <b>Total Net Assets</b>                             | <u><u>\$ 15,532,657</u></u>        |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2006**

| Functions/Programs                            | Expenses            | Program Revenues        |                     | Net (Expense)<br>Revenue and<br>Changes In<br>Net Assets |
|---|---------------------|-------------------------|---------------------|--|
|   |                     | Charges<br>for Services | Operating<br>Grants |  |
| <b>Governmental Activities</b>                |                     |                         |                     |  |
| Instruction                                   | \$11,946,669        | \$ 23,050               | \$ 3,213,462        | \$ (8,710,157)   |
| Supporting services                           | 6,682,726           | 11,101                  | 250,951             | (6,420,674)  |
| Community services                            | 214,849             | 91,316                  | 16,078              | (107,455)  |
| Food service                                  | 894,310             | 221,428                 | 579,774             | (93,108)   |
| Athletics                                     | 392,148             | 38,977                  | -                   | (353,171)  |
| Interest on long-term debt                    | 731,358             | -                       | 16,074              | (715,284)  |
| Depreciation - unallocated                    | 4,519               | -                       | -                   | (4,519)  |
| <b>Total Governmental Activities</b>          | <u>\$20,866,579</u> | <u>\$ 385,872</u>       | <u>\$ 4,076,339</u> | <u>(16,404,368)</u>                                      |
| <b>General Revenues</b>                       |                     |                         |                     |  |
| Taxes:  |                     |                         |                     |  |
| Property taxes, levied for general operations |                     |                         |                     | 3,943,552  |
| Property taxes, levied for debt service       |                     |                         |                     | 2,017,328  |
| State school aid, unrestricted                |                     |                         |                     | 10,905,859   |
| Interest and investment earnings              |                     |                         |                     | 215,741  |
| Other   |                     |                         |                     | 74,079   |
| <b>Total General Revenues</b>                 |                     |                         |                     | <u>17,156,559</u>  |
| <b>Change in Net Assets</b>                   |                     |                         |                     | 752,191  |
| <b>Net Assets - Beginning of Year</b>         |                     |                         |                     | <u>14,780,466</u>  |
| <b>Net Assets - End of Year</b>               |                     |                         |                     | <u><u>\$ 15,532,657</u></u>                              |

See accompanying notes to basic financial statements.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

|   | <u>General</u>             | <u>Nonmajor</u>          | <u>Total</u>               |
|---|----------------------------|--------------------------|----------------------------|
| <b>Assets</b>                                       |                            |                          |                            |
| Cash  | \$ 300                     | \$ -                     | \$ 300                     |
| Cash equivalents, deposits and investments (Note B) | 4,100,649                  | 165,591                  | 4,266,240                  |
| Receivables:  |                            |                          |                            |
| Taxes (Note C)                                      | 200,123                    | 64,429                   | 264,552                    |
| Accounts  | 13,265                     | 3,723                    | 16,988                     |
| Due from other funds (Note D)                       | 100,000                    | -                        | 100,000                    |
| Due from other governmental units (Note C)          | 2,409,724                  | 6,128                    | 2,415,852                  |
| Inventory (Note A)                                  | -                          | 9,898                    | 9,898                      |
| <b>Total Assets</b>                                 | <u><u>\$ 6,824,061</u></u> | <u><u>\$ 249,769</u></u> | <u><u>\$ 7,073,830</u></u> |
| <b>Liabilities and Fund Balances</b>                |                            |                          |                            |
| <b>Liabilities</b>                                  |                            |                          |                            |
| Accounts payable                                    | \$ 148,141                 | \$ 11,996                | \$ 160,137                 |
| Due to other governmental units                     | 386,093                    | 320                      | 386,413                    |
| Salaries payable                                    | 1,132,055                  | 1,334                    | 1,133,389                  |
| Deferred revenue                                    | 200,123                    | 64,429                   | 264,552                    |
| Compensated absences                                | 21,614                     | -                        | 21,614                     |
| <b>Total Liabilities</b>                            | <u>1,888,026</u>           | <u>78,079</u>            | <u>1,966,105</u>           |
| <b>Fund Balances</b>                                |                            |                          |                            |
| Reserved for:                                       |                            |                          |                            |
| Debt service  | -                          | 148,341                  | 148,341                    |
| Encumbrances  | 8,900                      | -                        | 8,900                      |
| Unreserved:   |                            |                          |                            |
| Undesignated, reported in:                          |                            |                          |                            |
| General fund  | 4,927,135                  | -                        | 4,927,135                  |
| Special revenue funds                               | -                          | 23,349                   | 23,349                     |
| <b>Total Fund Balances</b>                          | <u>4,936,035</u>           | <u>171,690</u>           | <u>5,107,725</u>           |
| <b>Total Liabilities and Fund Balances</b>          | <u><u>\$ 6,824,061</u></u> | <u><u>\$ 249,769</u></u> | <u><u>\$ 7,073,830</u></u> |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2006**

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|  |                 |                   |
|--|-----------------|-------------------|
| <b>Total governmental fund balances</b>  |                 | \$ 5,107,725      |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:   |                 |                   |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$36,443,782 and accumulated depreciation is \$8,692,539. |                 | 27,751,243        |
| Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.  |                 | (82,760)          |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:                    |                 |                   |
| General obligation bonds   | \$ (16,365,000) |                   |
| Durant non-plaintiff bonds   | (135,160)       |                   |
| Notes  | (123,167)       |                   |
| Installment purchase agreements  | (82,914)        |                   |
| Severance pay  | (107,377)       |                   |
| Accumulated sick leave   | (480,249)       | (17,293,867)      |
|  |                 |                   |
| Accrued interest is not included as a liability in governmental funds.   |                 | (133,281)         |
| Deduct Internal Service Fund negative fund balance.  |                 | (80,955)          |
| Deferred revenue recognized as revenue in the full accrual statements:   |                 |                   |
| Property taxes   |                 | 264,552           |
|  |                 |                   |
| <b>Total net assets - governmental activities</b>  |                 | <b>15,532,657</b> |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2006**

|  | General             | Nonmajor          | Total               |
|--|---------------------|-------------------|---------------------|
| <b>Revenues</b>  |                     |                   |                     |
| Local sources  | \$ 4,243,894        | \$ 2,406,468      | \$ 6,650,362        |
| State sources  | 11,886,138          | 73,493            | 11,959,631          |
| Federal sources  | 768,097             | 538,433           | 1,306,530           |
| Interdistrict sources  | 1,716,037           | -                 | 1,716,037           |
| <b>Total Revenues</b>  | <b>18,614,166</b>   | <b>3,018,394</b>  | <b>21,632,560</b>   |
| <b>Expenditures</b>  |                     |                   |                     |
| Current:   |                     |                   |                     |
| Instruction  | 11,227,379          | -                 | 11,227,379          |
| Supporting services  | 6,273,810           | -                 | 6,273,810           |
| Community services   | 69,770              | 121,829           | 191,599             |
| Food service   | -                   | 855,786           | 855,786             |
| Athletics  | -                   | 304,136           | 304,136             |
| Capital outlay   | 210,508             | -                 | 210,508             |
| Debt service:  |                     |                   |                     |
| Principal repayment  | 56,054              | 1,186,080         | 1,242,134           |
| Interest and fiscal charges                                  | 5,321               | 743,171           | 748,492             |
| Bond issuance costs  | -                   | 74,965            | 74,965              |
| Underwriter's discount                                       | -                   | 49,680            | 49,680              |
| Interdistrict  | 958,472             | -                 | 958,472             |
| <b>Total Expenditures</b>                                    | <b>18,801,314</b>   | <b>3,335,647</b>  | <b>22,136,961</b>   |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(187,148)</b>    | <b>(317,253)</b>  | <b>(504,401)</b>    |
| <b>Other Financing Sources (Uses)</b>                        |                     |                   |                     |
| Refunding bonds issued                                       | -                   | 8,280,000         | 8,280,000           |
| Bond premium   | -                   | 692,776           | 692,776             |
| Loan proceeds  | 262,134             | -                 | 262,134             |
| Transfers in   | -                   | 246,000           | 246,000             |
| Payments to escrow agent                                     | -                   | (9,501,166)       | (9,501,166)         |
| Transfers out  | (246,000)           | -                 | (246,000)           |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>16,134</b>       | <b>(282,390)</b>  | <b>(266,256)</b>    |
| <b>Net Change in Fund Balances</b>                           | <b>(171,014)</b>    | <b>(599,643)</b>  | <b>(770,657)</b>    |
| <b>Fund Balances, Beginning of Year</b>                      | <b>5,107,049</b>    | <b>771,333</b>    | <b>5,878,382</b>    |
| <b>Fund Balances, End of Year</b>                            | <b>\$ 4,936,035</b> | <b>\$ 171,690</b> | <b>\$ 5,107,725</b> |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2006**

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**Net change in fund balances - total governmental funds** \$ (770,657)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

|                      |                  |          |
|----------------------|------------------|----------|
| Capital outlays      | \$ 612,339       |          |
| Depreciation expense | <u>(631,028)</u> | (18,689) |

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (22,986)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets (8,542,134)

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. (82,760)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not effect the Statement of Activities.

|  |               |            |
|--|---------------|------------|
| Repayment of bonds                           | 10,211,080    |            |
| Repayment of notes                           | 16,833        |            |
| Repayment of installment purchase agreements | <u>39,220</u> | 10,267,133 |

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 17,134

Deduct Internal Service Fund net loss for the fiscal year. (80,955)

In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$110,741) exceeded the amounts used/paid (\$96,846). (13,895)

**Total changes in net assets - governmental activities** \$ 752,191

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2006**

|  | Budgeted Amounts    |                     | Actual              | Variance With<br>Final Budget -<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
|  | Original            | Final               |                     |   |
| <b>Revenues</b>  |                     |                     |                     |   |
| Local sources  | \$ 4,218,348        | \$ 4,250,902        | \$ 4,243,894        | \$ (7,008)  |
| State sources  | 10,970,201          | 11,905,471          | 11,886,138          | (19,333)  |
| Federal sources  | 764,312             | 775,969             | 768,097             | (7,872)   |
| Interdistrict sources  | 1,321,070           | 1,604,300           | 1,716,037           | 111,737   |
| <b>Total Revenues</b>  | <u>17,273,931</u>   | <u>18,536,642</u>   | <u>18,614,166</u>   | <u>77,524</u>   |
| <b>Expenditures</b>  |                     |                     |                     |   |
| Current:   |                     |                     |                     |   |
| Instruction  | 11,038,155          | 11,278,038          | 11,227,379          | 50,659  |
| Supporting services  | 5,596,892           | 6,068,271           | 6,273,810           | (205,539)   |
| Community services   | 71,450              | 73,273              | 69,770              | 3,503   |
| Capital outlay   | -                   | 210,508             | 210,508             | -   |
| Debt service   | -                   | 30,791              | 61,375              | (30,584)  |
| Interdistrict  | 1,469,434           | 985,516             | 958,472             | 27,044  |
| <b>Total Expenditures</b>                                    | <u>18,175,931</u>   | <u>18,646,397</u>   | <u>18,801,314</u>   | <u>(154,917)</u>  |
| <b>Excess (Deficiency) Of Revenues<br/>Over Expenditures</b> | <u>(902,000)</u>    | <u>(109,755)</u>    | <u>(187,148)</u>    | <u>(77,393)</u>   |
| <b>Other Financing Sources (Uses)</b>                        |                     |                     |                     |   |
| Loan proceeds  | -                   | 262,134             | 262,134             | -   |
| Transfers out  | -                   | (246,000)           | (246,000)           | -   |
| <b>Total Other Financing<br/>Sources (Uses)</b>              | <u>-</u>            | <u>16,134</u>       | <u>16,134</u>       | <u>-</u>  |
| <b>Net Change in Fund Balances</b>                           | <u>(902,000)</u>    | <u>(93,621)</u>     | <u>(171,014)</u>    | <u>(77,393)</u>   |
| <b>Fund Balances, July 1</b>                                 | <u>5,107,049</u>    | <u>5,107,049</u>    | <u>5,107,049</u>    | <u>-</u>  |
| <b>Fund Balances, June 30</b>                                | <u>\$ 4,205,049</u> | <u>\$ 5,013,428</u> | <u>\$ 4,936,035</u> | <u>\$ (77,393)</u>  |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2006**

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|   |                               |
|---|-------------------------------|
|   | Health<br>Internal<br>Service |
| <b>Assets</b>                                       |                               |
| <b>Current Assets</b>                               |                               |
| Cash equivalents, deposits and investments (Note B) | \$     19,045                 |
|   |                               |
| <b>Liabilities</b>                                  |                               |
| <b>Current Liabilities</b>                          |                               |
| Due to other funds (Note D)                         | 100,000                       |
|   |                               |
| <b>Net Assets</b>                                   |                               |
| Unrestricted  | (80,955)                      |
|   |                               |
| <b>Total Net Assets</b>                             | <u><u>\$     (80,955)</u></u> |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the year ended June 30, 2006**

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|   |                               |
|---|-------------------------------|
|   | Health<br>Internal<br>Service |
|   | <hr/>                         |
| <b>Operating Revenues</b>               |                               |
| Insurance premiums                      | \$ 460,039                    |
|   | <hr/>                         |
| <b>Operating Expenses</b>               |                               |
| Employee insurance                      | 411,900                       |
| Other purchased services                | 136,592                       |
|   | <hr/>                         |
| <b>Total Operating Expenses</b>         | 548,492                       |
|   | <hr/>                         |
| <b>Operating Loss</b>                   | (88,453)                      |
|   | <hr/>                         |
| <b>Nonoperating Revenues (Expenses)</b> |                               |
| Interest earnings                       | 7,498                         |
|   | <hr/>                         |
| <b>Change in Net Assets</b>             | (80,955)                      |
|   | <hr/>                         |
| <b>Net Assets, Beginning of Year</b>    | -                             |
|   | <hr/>                         |
| <b>Net Assets, End of Year</b>          | <u><u>\$ (80,955)</u></u>     |

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the year ended June 30, 2006**

|  | Health<br>Internal<br>Service |
|--|-------------------------------|
| <b>Cash Flows From Operating Activities</b>  |                               |
| Receipts from customers  | \$ 460,039                    |
| Payments to suppliers  | <u>(548,492)</u>              |
| <b>Net Cash Provided (Used) By Operating Activities</b>  | <u>(88,453)</u>               |
| <b>Cash Flows From Capital and Related Financing Activities</b>  |                               |
| Advance from General Fund  | 100,000                       |
| <b>Cash Flows From Investing Activities</b>  |                               |
| Interest received  | <u>7,498</u>                  |
| <b>Net Increase In Cash and Cash Equivalents</b>   | 19,045                        |
| <b>Cash and Cash Equivalents, Beginning of Year</b>  | <u>-</u>                      |
| <b>Cash and Cash Equivalents, End of Year</b>  | <u><u>\$ 19,045</u></u>       |
| <b>Reconciliation of Operating Income (Loss) To Net<br/>Cash Provided By (Used For) Operating Activities</b> |                               |
| Operating loss   | <u><u>\$ (88,453)</u></u>     |

See accompanying notes to basic financial statements.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Fiduciary Fund**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2006**

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**Assets**

|   |                   |
|---|-------------------|
| Cash equivalents, deposits and investments (Note B) | <u>\$ 291,042</u> |
|---|-------------------|

**Liabilities**

|                       |                   |
|-----------------------|-------------------|
| Due to student groups | <u>\$ 291,042</u> |
|-----------------------|-------------------|

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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## **Note A – Summary of Significant Accounting Policies**

Kelloggsville Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,145 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kelloggsville Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

### **1. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

### **2. District-Wide and Fund Financial Statements**

**District-Wide Financial Statements** – The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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### **Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service, Athletics and Child Care Funds.

*Debt Service Funds*—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

*Capital Projects Funds*—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The District reports the following internal service fund:

The *Health Internal Service Fund* is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District or to other governments, primarily on a cost reimbursement basis. The Health Fund provides insurance benefits provided by payments from the other District Funds.

### **Fiduciary Funds**

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kelloggsville Public Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kelloggsville Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

#### **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

#### **6. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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**7. Inventory**

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

**8. Capital Assets**

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

|                            |             |
|----------------------------|-------------|
| Land improvements          | 10-20 years |
| Buildings and improvements | 40-50 years |
| Vehicles                   | 5-10 years  |
| Furniture and equipment    | 3-10 years  |

**9. Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**10. Severance Pay/Accumulated Sick Leave**

Severance pay and accumulated sick leave at June 30, 2006 has been computed and recorded in the basic financial statements of the District. Eligible District employees who retire are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2006, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for severance pay and accumulated sick leave amounted to \$107,377 and \$480,249, respectively.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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**11. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**12. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**13. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents and Deposits**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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**Cash Equivalents and Deposits**

Depositories actively used by the District during the year are detailed as follows:

1. Byron Bank

Balances at June 30, 2006 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

|                       |                     |
|-----------------------|---------------------|
| Governmental Funds    | \$ 4,266,240        |
| Internal Service Fund | 19,045              |
| Fiduciary Fund        | <u>291,042</u>      |
|                       | <u>\$ 4,576,327</u> |

Cash equivalents consist of bank interest earning super NOW accounts. Deposits consist of certificates of deposit.

June 30, 2006 balances are detailed as follows:

|                  |                     |
|------------------|---------------------|
| Cash equivalents | \$ 1,301,868        |
| Deposits         | <u>3,274,459</u>    |
|                  | <u>\$ 4,576,327</u> |

*Custodial credit risk*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$4,576,327 and the bank balance was \$4,909,638. Of the bank balance, \$100,000 was covered by federal depository insurance and \$4,809,638 was uninsured.

**Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2005 ad valorem State Education Taxes generated within the Kelloggsville Public School District, and paid to the State of Michigan, totaled \$2,357,868.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for Kelloggsville Public Schools was \$6,785 for 2,134 "Full Time Equivalent" students, generating \$11,932,670 in state aid payments to the District, of which \$2,159,603 was paid to the District in July and August, 2006 and included in "Due From Other Governmental Units" of the General and Food Service Special Revenue Funds of the District.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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Property taxes for the District are levied July 1 and December 1 under a split-levy system by the Cities of Kentwood and Wyoming. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

| <b>Tax Year</b> | <b>General</b>    | <b>Debt<br/>Service</b> | <b>Total</b>      |
|-----------------|-------------------|-------------------------|-------------------|
| 2005            | \$ 76,752         | \$ 23,480               | \$ 100,232        |
| 2004            | 52,274            | 16,254                  | 68,528            |
| 2003            | 71,097            | 24,695                  | 95,792            |
|                 | <u>\$ 200,123</u> | <u>\$ 64,429</u>        | <u>\$ 264,552</u> |

Taxes receivable are offset by deferred revenue in the General and Debt Service Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Kelloggsville Public Schools electors previously approved an eight year operating millage extension in June, 1999 for the 18 mill non-homestead property tax.

The District levied 5.50 mills for debt service purposes, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

**Note D – Interfund Transfers/Receivables**

Operating transfers between funds during the year ended June 30, 2006 were as follows:

|                        | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------|---------------------|----------------------|
| General Fund           |                     |                      |
| Special Revenue Funds: |                     |                      |
| Athletics Fund         | \$ —                | \$ 246,000           |
| Special Revenue Funds  |                     |                      |
| Athletics Fund:        |                     |                      |
| General Fund           | 246,000             | —                    |
| <b>Total All Funds</b> | <u>\$ 246,000</u>   | <u>\$ 246,000</u>    |

The General Fund transfer to the Athletic Fund was made to pay the General Fund's share of support for the athletic program for the fiscal year.

The \$100,000 due from the Health Care Internal Service Fund to the General Fund was made to advance operating monies to the new fund. There is no scheduled time table to repay this advance.

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

|                                    | <u>Balances<br/>July 1, 2005</u> | <u>Additions</u>  | <u>Deductions</u> | <u>Balances<br/>June 30, 2006</u> |
|------------------------------------|----------------------------------|-------------------|-------------------|-----------------------------------|
| Capital assets not depreciated:    |                                  |                   |                   |                                   |
| Land                               | \$ 11,584,612                    | \$ 148,390        | \$ —              | \$ 11,733,002                     |
| Capital assets being depreciated:  |                                  |                   |                   |                                   |
| Land improvements                  | 1,104,223                        | 52,667            | —                 | 1,156,890                         |
| Buildings and additions            | 20,985,492                       | —                 | —                 | 20,985,492                        |
| Furniture and equipment            | 1,444,827                        | 187,695           | —                 | 1,632,522                         |
| Vehicles                           | 712,289                          | 223,587           | —                 | 935,876                           |
| Totals at historical cost          | <u>\$ 35,831,443</u>             | <u>\$ 612,339</u> | <u>\$ —</u>       | <u>\$ 36,443,782</u>              |
| Less accumulated depreciation for: |                                  |                   |                   |                                   |
| Land improvements                  | \$ 593,189                       | \$ 55,391         | \$ —              | \$ 648,580                        |
| Buildings and additions            | 5,684,030                        | 379,839           | —                 | 6,063,869                         |
| Furniture and equipment            | 1,209,744                        | 125,550           | —                 | 1,335,294                         |
| Vehicles                           | 574,548                          | 70,248            | —                 | 644,796                           |
| Total accumulated depreciation     | <u>8,061,511</u>                 | <u>\$ 631,028</u> | <u>\$ —</u>       | <u>8,692,539</u>                  |
| <b>Net Capital Assets</b>          | <u>\$ 27,769,932</u>             |                   |                   | <u>\$ 27,751,243</u>              |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

Depreciation expense was charged to District activities as follows:

|                          |                   |
|--------------------------|-------------------|
| Governmental activities: |                   |
| Instruction              | \$ 314,119        |
| Supporting services      | 160,883           |
| Community services       | 23,250            |
| Food service             | 40,246            |
| Athletics                | 88,012            |
| Unallocated              | 4,519             |
|                          | <u>\$ 631,028</u> |

**Note F – Long-term Debt**

Amounts available and to be provided for outstanding long-term debt at June 30, 2006 are summarized as follows:

|  | <b>General<br/>Obligation<br/>Bonds</b> | <b>Durant<br/>Non-plaintiff<br/>Bonds</b> | <b>Notes Payable/<br/>Installment<br/>Purchase<br/>Agreements</b> | <b>Severance<br/>Pay/<br/>Accumulated<br/>Sick Leave</b> | <b>Total</b>        |
|--|---|---|---|--|---------------------|
| <b>Amount Available For Retirement<br/>Of Long-Term Debt</b>       |   |   |   |  |                     |
| Debt Service Funds   | \$ 148,341                              | \$ —                                      | \$ —  | \$ —   | \$ 148,341          |
| <b>Amounts To Be Provided For<br/>Retirement Of Long-Term Debt</b> |   |   |   |  |                     |
| State of Michigan  | —                                       | 135,160                                   | —   | —  | 135,160             |
| General Fund   | —                                       | —   | 206,081   | 587,626  | 670,540             |
| Debt Service Funds   | 16,216,659                              | —   | —   | —  | 16,216,659          |
| <b>Total Amounts Available and To<br/>Be Provided</b>              | <u>\$16,365,000</u>                     | <u>\$ 135,160</u>                         | <u>\$ 206,081</u>   | <u>\$ 587,626</u>  | <u>\$17,293,867</u> |

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

|                                | <b>Debt<br/>Outstanding<br/>July 1, 2005</b> | <b>Debt<br/>Added</b> | <b>Debt<br/>Retired</b> | <b>Debt<br/>Outstanding<br/>June 30, 2006</b> |
|--------------------------------|--|-----------------------|-------------------------|---|
| General obligation bonds:      |  |                       |                         |   |
| July 1, 1998                   | \$ 18,285,000                                | \$ —                  | \$ 10,040,000           | \$ 8,245,000                                  |
| August 10, 2005                | —  | 8,280,000             | 160,000                 | 8,120,000                                     |
| Durant non-plaintiff bonds:    |  |                       |                         |   |
| November 13, 1998              | 146,240                                      | —                     | 11,080                  | 135,160                                       |
| Note payable                   | —  | 140,000               | 16,883                  | 123,167                                       |
| Installment purchase agreement | —  | 122,134               | 39,220                  | 82,914  |
| Severance pay                  | 103,658                                      | 14,311                | 10,592                  | 107,377                                       |
| Accumulated sick leave         | 470,073                                      | 96,430                | 86,254                  | 480,249                                       |
|                                | <u>\$ 19,004,971</u>                         | <u>\$ 8,652,875</u>   | <u>\$ 10,363,979</u>    | <u>\$ 17,293,867</u>                          |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

Long-term bonds and at June 30, 2006 are comprised of the following:

|  | <b>Final<br/>Maturity<br/>Dates</b> | <b>Interest<br/>Rates</b> | <b>Outstanding<br/>Balance</b> | <b>Amount<br/>Due Within<br/>One Year</b> |
|--|-------------------------------------|---------------------------|--------------------------------|---|
| <b>General Obligation Bonds</b>  |                                     |                           |                                |   |
| \$22,280M Building and Site July 1, 1998:<br>Annual maturities of \$580M to \$1,090M | May 1, 2018                         | 4.40 – 5.15               | \$ 8,245,000                   | \$ 1,090,000                              |
| \$8,280M Refunding August 10, 2005:<br>Annual maturities of \$160M to \$1,370M       | May 1, 2015                         | 3.25 – 5.00               | \$ 8,120,000                   | 160,000                                   |
| <b>Durant Non-plaintiff Bonds</b>  |                                     |                           |                                |   |
| \$229M School Improvement November 13, 1998:<br>Annual maturities of \$11M to \$54M  | May 15, 2013                        | 4.761353                  | 135,160                        | 11,605                                    |
| <b>Note Payable</b>  |                                     |                           |                                |   |
| \$140M Land Purchase March 15, 2006:<br>Annual maturities of \$54M to \$69M          | May 15, 2008                        | 4.290                     | 123,167                        | 69,235                                    |
| <b>Installment Purchase Agreement</b>  |                                     |                           |                                |   |
| \$122,134 Bus Contract July 11, 2005:<br>Annual maturities of \$9M to \$42M          | July 11, 2008                       | 3.80                      | 82,914                         | 40,694                                    |
|  |                                     |                           | <u>\$ 16,706,241</u>           | <u>\$ 1,371,534</u>                       |

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

| <b>Year Ended June 30</b> | <b>Principal</b>     | <b>Interest</b>     | <b>Total</b>         |
|---------------------------|----------------------|---------------------|----------------------|
| 2007                      | \$ 1,371,534         | \$ 806,052          | \$ 2,104,362         |
| 2008                      | 1,458,312            | 746,718             | 2,150,112            |
| 2009                      | 1,492,739            | 676,806             | 2,169,545            |
| 2010                      | 1,594,686            | 636,169             | 2,230,855            |
| 2011                      | 1,633,981            | 541,582             | 2,175,563            |
| 2012                      | 1,714,646            | 460,838             | 2,175,484            |
| 2013                      | 1,800,343            | 375,141             | 2,175,484            |
| 2014                      | 1,870,000            | 285,160             | 2,155,160            |
| 2015                      | 1,965,000            | 191,358             | 2,156,358            |
| 2016                      | 590,000              | 92,810              | 682,810              |
| 2017                      | 610,000              | 62,572              | 672,572              |
| 2018                      | 605,000              | 31,158              | 636,158              |
|                           | <u>\$ 16,706,241</u> | <u>\$ 4,906,364</u> | <u>\$ 21,612,605</u> |

On August 10, 2005, the District issued \$8,280,000 in general obligation bonds to advance refund \$9,025,000 of outstanding 1998 general obligation bonds with an effective interest rate of 5.212324% resulting in a net present value savings of \$589,233. The net proceeds (\$9,501,166 after the net premium of \$692,776 and the District contribution of \$660,000 and payment of \$131,610 in underwriting fees, insurance and other issuance costs) were

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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deposited with an escrow agent and used to purchase United States government securities (SLGS). Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2008). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$9,929,615 on the defeased debt at June 30, 2006 are detailed in the following schedule:

|                            | <b>Cost</b> | <b>Market Value</b> | <b>Par Value</b> |
|----------------------------|-------------|---------------------|------------------|
| U.S. Government Securities | \$9,287,103 | \$9,287,103         | \$9,287,103      |

## **Note G – Retirement Plan**

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2006 was \$10,805,252. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The District's contributions to the plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$1,743,287, \$1,498,846 and \$1,279,775, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2006**

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The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

#### **Note H – Risk Management and Benefits**

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2006, there were no material pending claims against the District. The District paid \$49,423 in premiums to the Fund for the year ended June 30, 2006.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2006, there were no material pending claims against the District. The District paid \$10,671 in premiums to the Fund for the year ended June 30, 2006.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **Note I – Stewardship, Compliance and Accountability**

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2006, as follows:

|              | <b>Budget</b> | <b>Actual</b> | <b>Unfavorable<br/>Variance</b> |
|--------------|---------------|---------------|---------------------------------|
| General Fund | \$ 18,646,397 | \$ 18,801,314 | \$ 154,917                      |

## **SUPPLEMENTAL INFORMATION**



## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2006 and 2005**

|  | <u>2006</u>                | <u>2005</u>                |
|--|----------------------------|----------------------------|
| <b>Assets</b>                              |                            |                            |
| Cash                                       | \$ 300                     | \$ 300                     |
| Cash equivalents, deposits and investments | 4,100,649                  | 4,458,222                  |
| Receivables:                               |                            |                            |
| Taxes                                      | 200,123                    | 219,629                    |
| Accounts                                   | 13,265                     | -                          |
| Accrued interest                           | -                          | 14,296                     |
| Due from other funds                       | 100,000                    | -                          |
| Due from other governmental units          | 2,409,724                  | 2,173,368                  |
| Prepaid expenditures                       | -                          | 16,605                     |
| <b>Total Assets</b>                        | <u><u>\$ 6,824,061</u></u> | <u><u>\$ 6,882,420</u></u> |
| <b>Liabilities and Fund Balances</b>       |                            |                            |
| <b>Liabilities</b>                         |                            |                            |
| Accounts payable                           | \$ 148,141                 | \$ 173,468                 |
| Due to other governmental units            | 386,093                    | 294,527                    |
| Salaries payable                           | 1,132,055                  | 1,066,133                  |
| Deferred revenue                           | 200,123                    | 219,629                    |
| Compensated absences                       | 21,614                     | 21,614                     |
| <b>Total Liabilities</b>                   | <u>1,888,026</u>           | <u>1,775,371</u>           |
| <b>Fund Balances</b>                       |                            |                            |
| Reserved for encumbrances                  | 8,900                      | 222,692                    |
| Unreserved:                                |                            |                            |
| Undesignated                               | 4,927,135                  | 4,884,357                  |
| <b>Total Fund Balances</b>                 | <u>4,936,035</u>           | <u>5,107,049</u>           |
| <b>Total Liabilities and Fund Balances</b> | <u><u>\$ 6,824,061</u></u> | <u><u>\$ 6,882,420</u></u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2006 and 2005**

|                                      | 2006                        | 2005                        |
|--------------------------------------|-----------------------------|-----------------------------|
| Local sources:                       |                             |                             |
| Property taxes:                      |                             |                             |
| Current property taxes               | \$ 3,910,954                | \$ 3,841,033                |
| Delinquent property taxes            | 38,826                      | 31,799                      |
| Other taxes                          | 1,705                       | 13,166                      |
| Interest on delinquent taxes         | 11,573                      | 9,096                       |
|                                      | <u>3,963,058</u>            | <u>3,895,094</u>            |
| Interest earnings:                   |                             |                             |
| Interest on deposits and investments | 180,812                     | 80,381                      |
| Other local revenue:                 |                             |                             |
| Community education fees             | 990                         | 900                         |
| Summer school tuition                | 2,785                       | 12,591                      |
| Driver education fees                | 14,915                      | 10,945                      |
| Preschool tuition                    | 5,350                       | 7,063                       |
| Beverage consortium commissions      | 47,028                      | 44,029                      |
| Rental of school facilities          | 1,521                       | -                           |
| Donations                            | -                           | 1,023                       |
| Sale of school property              | 3,725                       | 2,270                       |
| Insurance reimbursements             | 4,117                       | 6,058                       |
| Crossing guard reimbursement         | 11,101                      | 9,256                       |
| Refunds of prior years' expenditures | -                           | 13,697                      |
| Miscellaneous                        | 8,492                       | 4,946                       |
|                                      | <u>100,024</u>              | <u>112,778</u>              |
| Total local sources                  | 4,243,894                   | 4,088,253                   |
| State sources:                       |                             |                             |
| State school aid                     | 11,883,397                  | 11,413,821                  |
| School improvement                   | 2,741                       | 2,741                       |
| Total state sources                  | <u>11,886,138</u>           | <u>11,416,562</u>           |
| Federal sources:                     |                             |                             |
| Title I                              | 271,786                     | 250,220                     |
| Title IIA                            | 93,674                      | 93,576                      |
| Title IID                            | 5,070                       | 6,318                       |
| Title III                            | 72,511                      | -                           |
| Title V                              | 4,437                       | 6,614                       |
| I.D.E.A. program                     | 289,671                     | 323,882                     |
| Drug free schools                    | 26,638                      | 12,742                      |
| Medicaid - school based              | 4,310                       | 1,120                       |
| Homeland security grant              | -                           | 3,266                       |
| Refugee grant                        | -                           | 9,477                       |
| Total federal sources                | <u>768,097</u>              | <u>707,215</u>              |
| Interdistrict sources:               |                             |                             |
| Special education - county           | 1,122,310                   | 957,396                     |
| Special education - transportation   | 213,365                     | 224,516                     |
| Special education - tuition          | 178,824                     | 57,325                      |
| Special education - itinerants       | 37,586                      | -                           |
| Career preparation                   | -                           | 16,500                      |
| Durant settlement reimbursements     | 31,497                      | 26,456                      |
| Medicaid fee for service             | 132,455                     | 14,794                      |
| Transportation reimbursements        | -                           | 8,959                       |
| Total interdistrict sources          | <u>1,716,037</u>            | <u>1,305,946</u>            |
| <b>Total Revenues</b>                | <u><u>\$ 18,614,166</u></u> | <u><u>\$ 17,517,976</u></u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2006 and 2005**

|                         | <u>2006</u>      | <u>2005</u>      |
|-------------------------|------------------|------------------|
| Current:                |                  |                  |
| Instruction:            |                  |                  |
| Basic programs:         |                  |                  |
| Elementary:             |                  |                  |
| Salaries                | \$ 2,557,137     | \$ 2,471,718     |
| Employee benefits       | 1,193,038        | 1,044,810        |
| Purchased services      | 5,974            | 6,372            |
| Supplies                | 60,457           | 52,252           |
| Equipment and furniture | -                | 15,057           |
|                         | <u>3,816,606</u> | <u>3,590,209</u> |
| Middle school:          |                  |                  |
| Salaries                | 1,261,786        | 1,263,766        |
| Employee benefits       | 600,848          | 562,024          |
| Purchased services      | 4,230            | 5,419            |
| Supplies                | 37,863           | 33,604           |
| Equipment and furniture | 2,629            | 10,724           |
| Miscellaneous           | 4,294            | 4,400            |
|                         | <u>1,911,650</u> | <u>1,879,937</u> |
| High school:            |                  |                  |
| Salaries                | 1,841,804        | 1,897,003        |
| Employee benefits       | 842,181          | 771,499          |
| Purchased services      | 52,627           | 48,092           |
| Supplies                | 67,666           | 64,274           |
| Equipment and furniture | 71,678           | 66,194           |
| Miscellaneous           | 35,117           | 17,959           |
|                         | <u>2,911,073</u> | <u>2,865,021</u> |
| Preschool:              |                  |                  |
| Salaries                | 179,888          | 176,635          |
| Employee benefits       | 93,302           | 97,124           |
| Purchased services      | 4,747            | 2,223            |
| Supplies                | 12,913           | 18,900           |
| Equipment and furniture | 9,515            | -                |
| Miscellaneous           | 4,465            | 4,255            |
|                         | <u>304,830</u>   | <u>299,137</u>   |
| Summer school:          |                  |                  |
| Salaries                | 29,286           | 11,233           |
| Employee benefits       | 6,639            | 2,374            |
| Supplies                | 1,629            | -                |
|                         | <u>37,554</u>    | <u>13,607</u>    |
| Total basic programs    | <u>8,981,713</u> | <u>8,647,911</u> |
| Added needs:            |                  |                  |
| Special education:      |                  |                  |
| Salaries                | 845,475          | 718,557          |
| Employee benefits       | 409,545          | 318,657          |
| Purchased services      | 1,812            | 1,991            |
| Supplies                | 5,441            | 3,066            |
|                         | <u>1,262,273</u> | <u>1,042,271</u> |

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2006 and 2005**

|                                  | 2006           | 2005           |
|----------------------------------|----------------|----------------|
| Compensatory education:          |                |                |
| Salaries                         | \$ 603,140     | \$ 352,179     |
| Employee benefits                | 271,029        | 257,933        |
| Purchased services               | 1,177          | 267            |
| Supplies                         | 591            | 12,870         |
|                                  | <u>875,937</u> | <u>623,249</u> |
| Career and technology education: |                |                |
| Salaries                         | 70,270         | 57,161         |
| Employee benefits                | 33,437         | 26,275         |
| Supplies                         | 3,357          | 4,105          |
| Equipment and furniture          | 392            | 34,814         |
|                                  | <u>107,456</u> | <u>122,355</u> |
| Total added needs                | 2,245,666      | 1,787,875      |
| Supporting services:             |                |                |
| Pupil services:                  |                |                |
| Guidance services:               |                |                |
| Salaries                         | 299,678        | 220,684        |
| Employee benefits                | 139,138        | 19,011         |
| Supplies                         | 1,330          | 927            |
|                                  | <u>440,146</u> | <u>240,622</u> |
| Psychological services:          |                |                |
| Employee benefits                | -              | 329            |
| Purchased services               | 189            | 259            |
| Supplies                         | 2,248          | 229            |
|                                  | <u>2,437</u>   | <u>817</u>     |
| Speech pathology services:       |                |                |
| Salaries                         | 66,958         | 41,124         |
| Employee benefits                | 31,642         | 14,962         |
| Purchased services               | 293            | 224            |
| Supplies                         | 636            | 626            |
|                                  | <u>99,529</u>  | <u>56,936</u>  |
| Social worker services:          |                |                |
| Salaries                         | 47,286         | 125,537        |
| Employee benefits                | (1,268)        | 55,265         |
| Purchased services               | 133            | -              |
| Supplies                         | 90             | -              |
|                                  | <u>46,241</u>  | <u>180,802</u> |
| Other pupil services:            |                |                |
| Salaries                         | 59,192         | 53,360         |
| Employee benefits                | 14,095         | 11,899         |
|                                  | <u>73,287</u>  | <u>65,259</u>  |
| Total pupil services             | 661,640        | 544,436        |

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2006 and 2005**

|                                       | 2006           | 2005           |
|---------------------------------------|----------------|----------------|
| Instructional staff services:         |                |                |
| Improvement of instruction:           |                |                |
| Salaries                              | \$ 5,875       | \$ 31,963      |
| Employee benefits                     | 34,341         | 35,271         |
| Purchased services                    | 62,965         | 40,568         |
| Supplies                              | 297            | 310            |
|                                       | <u>103,478</u> | <u>108,112</u> |
| Library:                              |                |                |
| Salaries                              | 142,647        | 133,143        |
| Employee benefits                     | 65,527         | 66,177         |
| Purchased services                    | 1,549          | 1,574          |
| Supplies                              | 33,555         | 20,136         |
|                                       | <u>243,278</u> | <u>221,030</u> |
| Audio - visual:                       |                |                |
| Purchased services                    | 1,409          | 1,918          |
| Supplies                              | 114            | 19             |
| Equipment and furniture               | 18,484         | 4,221          |
|                                       | <u>20,007</u>  | <u>6,158</u>   |
| Technology assisted instruction:      |                |                |
| Salaries                              | 110,342        | 88,913         |
| Employee benefits                     | 47,266         | 32,875         |
|                                       | <u>157,608</u> | <u>121,788</u> |
| Supervision of instruction:           |                |                |
| Salaries                              | 221,779        | 214,264        |
| Employee benefits                     | 81,609         | 69,021         |
| Purchased services                    | 49,328         | 16,624         |
| Supplies                              | 139,369        | 73,624         |
| Miscellaneous                         | 459            | 295            |
|                                       | <u>492,544</u> | <u>373,828</u> |
| Total instructional staff services    | 1,016,915      | 830,916        |
| General administrative services:      |                |                |
| Board of education:                   |                |                |
| Salaries                              | 77,190         | 118,685        |
| Employee benefits                     | 5,141          | 35,596         |
| Purchased services                    | 70,705         | 63,722         |
| Supplies                              | 5,359          | 5,214          |
| Miscellaneous                         | 9,973          | 8,866          |
|                                       | <u>168,368</u> | <u>232,083</u> |
| Executive administration:             |                |                |
| Salaries                              | 170,735        | 169,201        |
| Employee benefits                     | 56,190         | 51,579         |
| Purchased services                    | 2,991          | 2,241          |
| Miscellaneous                         | 2,940          | 3,051          |
|                                       | <u>232,856</u> | <u>226,072</u> |
| Total general administrative services | 401,224        | 458,155        |

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2006 and 2005**

|  | 2006       | 2005       |
|--|------------|------------|
| School administrative services:          |            |            |
| Office of the principal:                 |            |            |
| Salaries                                 | \$ 914,328 | \$ 857,693 |
| Employee benefits                        | 376,377    | 364,425    |
| Purchased services                       | 19,323     | 19,018     |
| Miscellaneous                            | 2,920      | 3,403      |
| Total school administrative services     | 1,312,948  | 1,244,539  |
| Business services:                       |            |            |
| Fiscal services:                         |            |            |
| Salaries                                 | 179,263    | 196,417    |
| Employee benefits                        | 89,629     | 73,266     |
| Purchased services                       | 22,225     | 24,634     |
| Supplies                                 | 20,268     | 17,298     |
| Miscellaneous                            | 310        | 480        |
|  | 311,695    | 312,095    |
| Other business services:                 |            |            |
| Purchased services                       | 18,614     | 25,910     |
| Miscellaneous                            | 22,462     | 33,047     |
|  | 41,076     | 58,957     |
| Total business services                  | 352,771    | 371,052    |
| Operation and maintenance services:      |            |            |
| Operation and maintenance:               |            |            |
| Salaries                                 | 579,373    | 555,561    |
| Employee benefits                        | 286,617    | 244,901    |
| Purchased services                       | 211,615    | 211,131    |
| Supplies                                 | 504,586    | 429,033    |
| Equipment and furniture                  | 171,727    | 8,531      |
| Miscellaneous                            | 395        | 215        |
|  | 1,754,313  | 1,449,372  |
| Security services:                       |            |            |
| Purchased services                       | -          | 3,267      |
| Total operation and maintenance services | 1,754,313  | 1,452,639  |
| Pupil transportation services:           |            |            |
| Pupil transportation:                    |            |            |
| Salaries                                 | 139,834    | 135,125    |
| Employee benefits                        | 53,495     | 47,937     |
| Purchased services                       | 28,529     | 13,767     |
| Supplies                                 | 30,557     | 26,593     |
| Equipment and furniture                  | 122,134    | -          |
| Miscellaneous                            | 529        | 675        |
| Total pupil transportation services      | 375,078    | 224,097    |

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2006 and 2005**

|                                       | <u>2006</u>                 | <u>2005</u>                 |
|---------------------------------------|-----------------------------|-----------------------------|
| Central services:                     |                             |                             |
| Technology services:                  |                             |                             |
| Employee benefits                     | \$ -                        | \$ 1,968                    |
| Purchased services                    | 133,831                     | 83,765                      |
| Supplies                              | 2,154                       | 341                         |
| Equipment and furniture               | 262,936                     | 122,336                     |
| Miscellaneous                         | -                           | 180                         |
| Total central services                | <u>398,921</u>              | <u>208,590</u>              |
| Community services:                   |                             |                             |
| Community relations/special projects: |                             |                             |
| Salaries                              | 41,395                      | 38,279                      |
| Employee benefits                     | 9,526                       | 8,195                       |
| Purchased services                    | 7,828                       | 7,656                       |
| Supplies                              | 11,021                      | 2,953                       |
| Total community services              | <u>69,770</u>               | <u>57,083</u>               |
| Capital outlay:                       |                             |                             |
| Land                                  | 148,390                     | -                           |
| Land improvements                     | -                           | 32,519                      |
| Building improvements                 | 62,118                      | 22,222                      |
| Total capital outlay                  | <u>210,508</u>              | <u>54,741</u>               |
| Debt service:                         |                             |                             |
| Principal repayment                   | 56,054                      | 63,001                      |
| Interest and fiscal charges           | 5,321                       | 1,317                       |
| Total debt service                    | <u>61,375</u>               | <u>64,318</u>               |
| Interdistrict:                        |                             |                             |
| Special education tuition             | 261,842                     | 267,813                     |
| Special education transportation      | 333,731                     | 319,576                     |
| Special education itinerants          | 315,310                     | 358,345                     |
| Other                                 | 47,589                      | 45,194                      |
| Total interdistrict                   | <u>958,472</u>              | <u>990,928</u>              |
| <b>Total Expenditures</b>             | <u><u>\$ 18,801,314</u></u> | <u><u>\$ 16,937,280</u></u> |



## **NONMAJOR FUNDS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2006**

|  | Special Revenue  |                 |                 |
|--|------------------|-----------------|-----------------|
|  | Food<br>Service  | Athletics       | Child<br>Care   |
| <b>Assets</b>                              |                  |                 |                 |
| Cash equivalents, deposits and investments | \$ 6,835         | \$ 4,094        | \$ 6,321        |
| Receivables:                               |                  |                 |                 |
| Taxes                                      | -                | -               | -               |
| Accounts                                   | 3,104            | -               | 619             |
| Due from other governmental units          | 6,128            | -               | -               |
| Inventory                                  | 9,898            | -               | -               |
| <b>Total Assets</b>                        | <b>\$ 25,965</b> | <b>\$ 4,094</b> | <b>\$ 6,940</b> |
| <b>Liabilities and Fund Balances</b>       |                  |                 |                 |
| <b>Liabilities</b>                         |                  |                 |                 |
| Accounts payable                           | \$ 11,996        | \$ -            | \$ -            |
| Due to other governmental units            | -                | -               | 320             |
| Salaries payable                           | -                | -               | 1,334           |
| Deferred revenue                           | -                | -               | -               |
| <b>Total Liabilities</b>                   | <b>11,996</b>    | <b>-</b>        | <b>1,654</b>    |
| <b>Fund Balances</b>                       |                  |                 |                 |
| Reserved for debt service                  | -                | -               | -               |
| Unreserved:                                |                  |                 |                 |
| Undesignated                               | 13,969           | 4,094           | 5,286           |
| <b>Total Fund Balances</b>                 | <b>13,969</b>    | <b>4,094</b>    | <b>5,286</b>    |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 25,965</b> | <b>\$ 4,094</b> | <b>\$ 6,940</b> |

| Debt Service      |                  |             |                   |
|-------------------|------------------|-------------|-------------------|
| 1998              | 2005             | Durant      | Total             |
| \$ 127,446        | \$ 20,895        | \$ -        | \$ 165,591        |
| 59,029            | 5,400            | -           | 64,429            |
| -                 | -                | -           | 3,723             |
| -                 | -                | -           | 6,128             |
| -                 | -                | -           | 9,898             |
| <u>\$ 186,475</u> | <u>\$ 26,295</u> | <u>\$ -</u> | <u>\$ 249,769</u> |
|                   |                  |             |                   |
| \$ -              | \$ -             | \$ -        | \$ 11,996         |
| -                 | -                | -           | 320               |
| -                 | -                | -           | 1,334             |
| 59,029            | 5,400            | -           | 64,429            |
| <u>59,029</u>     | <u>5,400</u>     | <u>-</u>    | <u>78,079</u>     |
|                   |                  |             |                   |
| 127,446           | 20,895           | -           | 148,341           |
| -                 | -                | -           | 23,349            |
| <u>127,446</u>    | <u>20,895</u>    | <u>-</u>    | <u>171,690</u>    |
| <u>\$ 186,475</u> | <u>\$ 26,295</u> | <u>\$ -</u> | <u>\$ 249,769</u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2006**

|  | Special Revenue  |                  |                 |
|--|------------------|------------------|-----------------|
|  | Food<br>Service  | Athletics        | Child<br>Care   |
| <b>Revenues</b>  |                  |                  |                 |
| Local sources:   |                  |                  |                 |
| Property taxes   | \$ -             | \$ -             | \$ -            |
| Interest earnings  | 1,912            | 1,892            | 599             |
| Sales and admissions   | 221,428          | 38,977           | -               |
| Other local sources  | -                | -                | 90,326          |
| Total local sources  | 223,340          | 40,869           | 90,925          |
| State sources  | 41,341           | -                | 16,078          |
| Federal sources  | 538,433          | -                | -               |
| <b>Total Revenues</b>  | <b>803,114</b>   | <b>40,869</b>    | <b>107,003</b>  |
| <b>Expenditures</b>  |                  |                  |                 |
| Current:   |                  |                  |                 |
| Food service   | 855,786          | -                | -               |
| Athletics  | -                | 304,136          | -               |
| Community services   | -                | -                | 121,829         |
| Debt service:  |                  |                  |                 |
| Principal repayment  | -                | -                | -               |
| Interest and fiscal charges                                  | -                | -                | -               |
| Bond issuance costs  | -                | -                | -               |
| Underwriter's discount                                       | -                | -                | -               |
| <b>Total Expenditures</b>                                    | <b>855,786</b>   | <b>304,136</b>   | <b>121,829</b>  |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(52,672)</b>  | <b>(263,267)</b> | <b>(14,826)</b> |
| <b>Other Financing Sources (Uses)</b>                        |                  |                  |                 |
| Refunding bonds issued                                       | -                | -                | -               |
| Bond premium   | -                | -                | -               |
| Transfers in   | -                | 246,000          | -               |
| Payments to escrow agent                                     | -                | -                | -               |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>-</b>         | <b>246,000</b>   | <b>-</b>        |
| <b>Net Change in Fund Balances</b>                           | <b>(52,672)</b>  | <b>(17,267)</b>  | <b>(14,826)</b> |
| <b>Fund Balances, July 1</b>                                 | <b>66,641</b>    | <b>21,361</b>    | <b>20,112</b>   |
| <b>Fund Balances, June 30</b>                                | <b>\$ 13,969</b> | <b>\$ 4,094</b>  | <b>\$ 5,286</b> |

| Debt Service |            |        |              |
|--------------|------------|--------|--------------|
| 1998         | 2005       | Durant | Total        |
| \$ 1,559,143 | \$ 461,665 | \$ -   | \$ 2,020,808 |
| 23,898       | 6,628      | -      | 34,929       |
| -            | -          | -      | 260,405      |
| -            | -          | -      | 90,326       |
| 1,583,041    | 468,293    | -      | 2,406,468    |
| -            | -          | 16,074 | 73,493       |
| -            | -          | -      | 538,433      |
| 1,583,041    | 468,293    | 16,074 | 3,018,394    |
| -            | -          | -      | 855,786      |
| -            | -          | -      | 304,136      |
| -            | -          | -      | 121,829      |
| 1,015,000    | 160,000    | 11,080 | 1,186,080    |
| 450,779      | 287,398    | 4,994  | 743,171      |
| 74,965       | -          | -      | 74,965       |
| 49,680       | -          | -      | 49,680       |
| 1,590,424    | 447,398    | 16,074 | 3,335,647    |
| (7,383)      | 20,895     | -      | (317,253)    |
| 8,280,000    | -          | -      | 8,280,000    |
| 692,776      | -          | -      | 692,776      |
| -            | -          | -      | 246,000      |
| (9,501,166)  | -          | -      | (9,501,166)  |
| (528,390)    | -          | -      | (282,390)    |
| (535,773)    | 20,895     | -      | (599,643)    |
| 663,219      | -          | -      | 771,333      |
| \$ 127,446   | \$ 20,895  | \$ -   | \$ 171,690   |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the year ended June 30, 2006**

|                                    | 2006            |                  | Variance -             |
|------------------------------------|-----------------|------------------|------------------------|
|                                    | Budget          | Actual           | Positive<br>(Negative) |
| <b>Revenues</b>                    |                 |                  |                        |
| Local sources:                     |                 |                  |                        |
| Interest earnings                  | \$ -            | \$ 1,912         | \$ 1,912               |
| Sales and admissions               | 228,444         | 221,428          | (7,016)                |
| Total local sources                | 228,444         | 223,340          | (5,104)                |
| State sources                      | 41,827          | 41,341           | (486)                  |
| Federal sources                    | 534,253         | 538,433          | 4,180                  |
| <b>Total Revenues</b>              | <b>804,524</b>  | <b>803,114</b>   | <b>(1,410)</b>         |
| <b>Expenditures</b>                |                 |                  |                        |
| Current:                           |                 |                  |                        |
| Food service                       | 870,161         | 855,786          | 14,375                 |
| <b>Net Change in Fund Balances</b> | <b>(65,637)</b> | <b>(52,672)</b>  | <b>12,965</b>          |
| <b>Fund Balances, July 1</b>       | <b>66,641</b>   | <b>66,641</b>    | <b>-</b>               |
| <b>Fund Balances, June 30</b>      | <b>\$ 1,004</b> | <b>\$ 13,969</b> | <b>\$ 12,965</b>       |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the year ended June 30, 2006**

|  | 2006      |           | Variance -             |
|--|-----------|-----------|------------------------|
|  | Budget    | Actual    | Positive<br>(Negative) |
| <b>Revenues</b>  |           |           |                        |
| Local sources:   |           |           |                        |
| Interest earnings  | \$ 1,972  | \$ 1,892  | \$ (80)                |
| Sales and admissions   | 38,977    | 38,977    | -                      |
| <b>Total Revenues</b>  | 40,949    | 40,869    | (80)                   |
| <b>Expenditures</b>  |           |           |                        |
| Current:   |           |           |                        |
| Athletics  | 307,353   | 304,136   | 3,217                  |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | (266,404) | (263,267) | 3,137                  |
| <b>Other Financing Sources</b>                               |           |           |                        |
| Transfers in   | 246,000   | 246,000   | -                      |
| <b>Net Change in Fund Balances</b>                           | (20,404)  | (17,267)  | 3,137                  |
| <b>Fund Balances, July 1</b>                                 | 21,361    | 21,361    | -                      |
| <b>Fund Balances, June 30</b>                                | \$ 957    | \$ 4,094  | \$ 3,137               |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the year ended June 30, 2006**

|                                    | 2006     |          | Variance -             |
|------------------------------------|----------|----------|------------------------|
|                                    | Budget   | Actual   | Positive<br>(Negative) |
| <b>Revenues</b>                    |          |          |                        |
| Local sources:                     |          |          |                        |
| Interest earnings                  | \$ 632   | \$ 599   | \$ (33)                |
| Other local sources                | 90,875   | 90,326   | (549)                  |
| Total local sources                | 91,507   | 90,925   | (582)                  |
| State sources                      | 16,164   | 16,078   | (86)                   |
| <b>Total Revenues</b>              | 107,671  | 107,003  | (668)                  |
| <b>Expenditures</b>                |          |          |                        |
| Current:                           |          |          |                        |
| Community services                 | 123,067  | 121,829  | 1,238                  |
| <b>Net Change in Fund Balances</b> | (15,396) | (14,826) | 570                    |
| <b>Fund Balances, July 1</b>       | 20,112   | 20,112   | -                      |
| <b>Fund Balances, June 30</b>      | \$ 4,716 | \$ 5,286 | \$ 570                 |



## **SPECIAL REVENUE FUNDS**

*Food Service*—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

*Athletics*—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

*Child Care*—to account for user fees and State subsidies for use in administering the child care program of the District.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2006 and 2005**

|  | <u>2006</u>             | <u>2005</u>             |
|--|-------------------------|-------------------------|
| <b>Assets</b>                              |                         |                         |
| Cash equivalents, deposits and investments | \$ 6,835                | \$ 52,086               |
| Accounts receivable                        | 3,104                   | 1,929                   |
| Due from other governmental units          | 6,128                   | 5,765                   |
| Inventory                                  | <u>9,898</u>            | <u>9,744</u>            |
| <b>Total Assets</b>                        | <u><u>\$ 25,965</u></u> | <u><u>\$ 69,524</u></u> |
| <br><b>Liabilities and Fund Balances</b>   |                         |                         |
| <b>Liabilities</b>                         |                         |                         |
| Accounts payable                           | <u>\$ 11,996</u>        | <u>\$ 2,883</u>         |
| <b>Fund Balances</b>                       |                         |                         |
| Unreserved:                                |                         |                         |
| Undesignated                               | <u>13,969</u>           | <u>66,641</u>           |
| <b>Total Liabilities and Fund Balances</b> | <u><u>\$ 25,965</u></u> | <u><u>\$ 69,524</u></u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2006 and 2005**

|                                      | 2006           | 2005           |
|--------------------------------------|----------------|----------------|
| <b>Revenues</b>                      |                |                |
| Local sources:                       |                |                |
| Sales and admissions:                |                |                |
| Children's breakfasts                | \$ 9,326       | \$ 10,052      |
| Children's lunches                   | 160,643        | 159,440        |
| Adult lunches                        | 1,828          | 5,349          |
| Milk                                 | 995            | 700            |
| Ala carte                            | 39,784         | 51,519         |
| Vending machine                      | 3,477          | 2,941          |
| Banquets                             | 5,375          | 9,770          |
|                                      | <u>221,428</u> | <u>239,771</u> |
| Interest earnings:                   |                |                |
| Interest on deposits and investments | 1,912          | 888            |
| Total local sources                  | <u>223,340</u> | <u>240,659</u> |
| State sources                        | 41,341         | 54,981         |
| Federal sources                      | <u>538,433</u> | <u>512,750</u> |
| <b>Total Revenues</b>                | <u>803,114</u> | <u>808,390</u> |
| <b>Expenditures</b>                  |                |                |
| Current:                             |                |                |
| Food service:                        |                |                |
| Salaries:                            |                |                |
| Supervisor                           | 29,019         | 26,983         |
| Clerical                             | 10,420         | 11,074         |
| Food service                         | 195,701        | 194,132        |
| Substitutes                          | 13,217         | 13,032         |
| Employee benefits:                   |                |                |
| Employee insurance                   | 39,861         | 31,775         |
| Retirement                           | 34,095         | 30,889         |
| Social Security                      | 16,622         | 16,401         |
| Workers' compensation insurance      | 1,686          | 353            |
| Cash in lieu of benefits             | 14,370         | 16,010         |
| Other purchased services             | 3,403          | -              |
| Local travel                         | 37             | 183            |
| Telephone                            | 3,190          | 3,286          |
| Mailing and postage                  | 409            | 555            |
| Waste and trash disposal             | 12,397         | 7,380          |
| Equipment repair and maintenance     | 9,416          | 10,559         |
| Vehicle repair and maintenance       | 177            | 626            |
| Food                                 | 275,463        | 293,108        |
| Milk                                 | 52,367         | 49,049         |
| Utilities                            | 52,601         | 37,041         |
| USDA donated commodities             | 44,934         | 29,229         |
| Non-edible supplies                  | 34,263         | 32,106         |
| Gasoline, oil and grease             | 1,370          | 1,000          |
| Office supplies                      | 748            | 885            |
| New equipment                        | 9,920          | 130            |

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2006 and 2005**

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|                                    | <u>2006</u>             | <u>2005</u>             |
|------------------------------------|-------------------------|-------------------------|
| Food service: (Continued)          |                         |                         |
| Sales tax                          | \$ 100                  | \$ 256                  |
| Miscellaneous                      | <u>-</u>                | <u>811</u>              |
| <b>Total Expenditures</b>          | <u>855,786</u>          | <u>806,853</u>          |
| <b>Net Change in Fund Balances</b> | (52,672)                | 1,537                   |
| <b>Fund Balances, July 1</b>       | <u>66,641</u>           | <u>65,104</u>           |
| <b>Fund Balances, June 30</b>      | <u><u>\$ 13,969</u></u> | <u><u>\$ 66,641</u></u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2006 and 2005**

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|  | <u>2006</u>     | <u>2005</u>      |
|--|-----------------|------------------|
| <b>Assets</b>                              |                 |                  |
| Cash equivalents, deposits and investments | <u>\$ 4,094</u> | <u>\$ 21,361</u> |
| <b>Liabilities and Fund Balances</b>       |                 |                  |
| <b>Liabilities</b>                         | <u>\$ -</u>     | <u>\$ -</u>      |
| <b>Fund Balances</b>                       |                 |                  |
| Unreserved:                                |                 |                  |
| Undesignated                               | <u>4,094</u>    | <u>21,361</u>    |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 4,094</u> | <u>\$ 21,361</u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2006 and 2005**

|  | 2006                   | 2005                    |
|--|------------------------|-------------------------|
| <b>Revenues</b>  |                        |                         |
| Local sources:   |                        |                         |
| Sales and admissions:                                    |                        |                         |
| Athletic admissions                                      | \$ 37,058              | \$ 38,163               |
| Fees, sales and donations                                | 1,820                  | 6,768                   |
| Other  | 99                     | 142                     |
|  | <u>38,977</u>          | <u>45,073</u>           |
| Interest earnings:                                       |                        |                         |
| Interest on deposits and investments                     | <u>1,892</u>           | <u>1,117</u>            |
| <b>Total Revenues</b>                                    | <u>40,869</u>          | <u>46,190</u>           |
| <b>Expenditures</b>                                      |                        |                         |
| Current:   |                        |                         |
| Athletics:   |                        |                         |
| Salaries:  |                        |                         |
| Coaches  | 163,108                | 168,000                 |
| Other athletic   | 7,055                  | 6,193                   |
| Clerical   | 7,719                  | 6,043                   |
| Employee benefits:                                       |                        |                         |
| Retirement   | 26,972                 | 25,282                  |
| Social Security  | 13,623                 | 13,754                  |
| Trainer  | 4,870                  | 5,775                   |
| Officials  | 19,689                 | 22,134                  |
| Physicals  | 1,900                  | 900                     |
| Local travel   | 991                    | 959                     |
| Workshops and conferences                                | 855                    | 766                     |
| Equipment repair and maintenance                         | 2,323                  | -                       |
| Security services  | 2,940                  | 2,280                   |
| Supplies   | 634                    | 329                     |
| Uniforms   | 27,959                 | 10,636                  |
| Medical supplies   | 1,434                  | 877                     |
| New equipment and furniture                              | 8,263                  | 7,060                   |
| Dues and fees  | 7,723                  | 4,906                   |
| Tournament expense                                       | 3,386                  | 5,068                   |
| Awards   | 821                    | 581                     |
| Miscellaneous  | <u>1,871</u>           | <u>2,085</u>            |
| <b>Total Expenditures</b>                                | <u>304,136</u>         | <u>283,628</u>          |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <u>(263,267)</u>       | <u>(237,438)</u>        |
| <b>Other Financing Sources</b>                           |                        |                         |
| Transfers in   | <u>246,000</u>         | <u>200,000</u>          |
| <b>Net Change in Fund Balances</b>                       | <u>(17,267)</u>        | <u>(37,438)</u>         |
| <b>Fund Balances, July 1</b>                             | <u>21,361</u>          | <u>58,799</u>           |
| <b>Fund Balances, June 30</b>                            | <u><u>\$ 4,094</u></u> | <u><u>\$ 21,361</u></u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2006 and 2005**

|  | <u>2006</u>            | <u>2005</u>             |
|--|------------------------|-------------------------|
| <b>Assets</b>                              |                        |                         |
| Cash equivalents, deposits and investments | \$ 6,321               | \$ 20,990               |
| Accounts receivable                        | <u>619</u>             | <u>1,344</u>            |
| <b>Total Assets</b>                        | <u><u>\$ 6,940</u></u> | <u><u>\$ 22,334</u></u> |
| <br><b>Liabilities and Fund Balances</b>   |                        |                         |
| <b>Liabilities</b>                         |                        |                         |
| Due to other governmental units            | \$ 320                 | \$ 409                  |
| Salaries payable                           | <u>1,334</u>           | <u>1,813</u>            |
| <b>Total Liabilities</b>                   | <u>1,654</u>           | <u>2,222</u>            |
| <b>Fund Balances</b>                       |                        |                         |
| Unreserved:                                |                        |                         |
| Undesignated                               | <u>5,286</u>           | <u>20,112</u>           |
| <b>Total Liabilities and Fund Balance</b>  | <u><u>\$ 6,940</u></u> | <u><u>\$ 22,334</u></u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2006 and 2005**

|                                      | 2006                   | 2005                    |
|--------------------------------------|------------------------|-------------------------|
| <b>Revenues</b>                      |                        |                         |
| Local sources:                       |                        |                         |
| Other local sources:                 |                        |                         |
| Child care fees                      | \$ 88,176              | \$ 98,046               |
| Summer activity fees                 | 2,150                  | 1,685                   |
| Miscellaneous                        | -                      | 427                     |
|                                      | <u>90,326</u>          | <u>100,158</u>          |
| Interest earnings:                   |                        |                         |
| Interest on deposits and investments | 599                    | 424                     |
| Total local sources                  | <u>90,925</u>          | <u>100,582</u>          |
| State sources                        | <u>16,078</u>          | <u>13,449</u>           |
| <b>Total Revenues</b>                | <u>107,003</u>         | <u>114,031</u>          |
| <b>Expenditures</b>                  |                        |                         |
| Current:                             |                        |                         |
| Community services:                  |                        |                         |
| Salaries:                            |                        |                         |
| Director                             | 36,753                 | 36,210                  |
| Aides                                | 46,461                 | 53,552                  |
| Employee benefits:                   |                        |                         |
| Employee insurance                   | 15,054                 | 6,884                   |
| Retirement                           | 13,273                 | 13,002                  |
| Social Security                      | 6,203                  | 6,747                   |
| Workers' compensation insurance      | 96                     | 177                     |
| Cash in lieu of benefits             | -                      | 955                     |
| Instructional services               | -                      | 167                     |
| Local travel                         | 88                     | 104                     |
| Workshops and conferences            | 60                     | 60                      |
| Field trips                          | 1,043                  | 2,010                   |
| Postage                              | 39                     | 73                      |
| Teaching supplies                    | 2,759                  | 3,025                   |
| Replacement furniture and equipment  | -                      | 429                     |
| Dues and fees                        | -                      | 40                      |
| Miscellaneous                        | -                      | 73                      |
| <b>Total Expenditures</b>            | <u>121,829</u>         | <u>123,508</u>          |
| <b>Net Change in Fund Balances</b>   | <u>(14,826)</u>        | <u>(9,477)</u>          |
| <b>Fund Balances, July 1</b>         | <u>20,112</u>          | <u>29,589</u>           |
| <b>Fund Balances, June 30</b>        | <u><u>\$ 5,286</u></u> | <u><u>\$ 20,112</u></u> |



## **DEBT SERVICE FUNDS**

*Debt Service Funds*—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2006**

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|  | <u>1998</u>              | <u>2005</u>             | <u>Durant</u>      |
|--|--------------------------|-------------------------|--------------------|
| <b>Assets</b>                              |                          |                         |                    |
| Cash equivalents, deposits and investments | \$ 127,446               | \$ 20,895               | \$ -               |
| Taxes receivable                           | <u>59,029</u>            | <u>5,400</u>            | <u>-</u>           |
| <b>Total Assets</b>                        | <u><u>\$ 186,475</u></u> | <u><u>\$ 26,295</u></u> | <u><u>\$ -</u></u> |
| <br><b>Liabilities and Fund Balances</b>   |                          |                         |                    |
| <b>Liabilities</b>                         |                          |                         |                    |
| Deferred revenue                           | <u>\$ 59,029</u>         | <u>\$ 5,400</u>         | <u>\$ -</u>        |
| <b>Fund Balances</b>                       |                          |                         |                    |
| Reserved for debt service                  | <u>127,446</u>           | <u>20,895</u>           | <u>-</u>           |
| <b>Total Liabilities and Fund Balances</b> | <u><u>\$ 186,475</u></u> | <u><u>\$ 26,295</u></u> | <u><u>\$ -</u></u> |

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| Totals            |                   |
|-------------------|-------------------|
| 2006              | 2005              |
| \$ 148,341        | \$ 663,219        |
| 64,429            | 67,909            |
| <u>\$ 212,770</u> | <u>\$ 731,128</u> |

|                   |                   |
|-------------------|-------------------|
| <u>\$ 64,429</u>  | <u>\$ 67,909</u>  |
| <u>148,341</u>    | <u>663,219</u>    |
| <u>\$ 212,770</u> | <u>\$ 731,128</u> |

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2006**

|  | 1998                     | 2005                    | Durant             |
|--|--------------------------|-------------------------|--------------------|
| <b>Revenues</b>  |                          |                         |                    |
| Local sources:   |                          |                         |                    |
| Property taxes:  |                          |                         |                    |
| Current property taxes                                       | \$ 1,524,388             | \$ 455,337              | \$ -               |
| Industrial facilities taxes                                  | 19,079                   | 5,702                   | -                  |
| Delinquent property taxes                                    | 11,951                   | -                       | -                  |
| Interest on delinquent taxes                                 | 3,716                    | 626                     | -                  |
| Other taxes  | 9                        | -                       | -                  |
|  | <u>1,559,143</u>         | <u>461,665</u>          |                    |
| Interest earnings:   |                          |                         |                    |
| Interest on deposits and investments                         | <u>23,898</u>            | <u>6,628</u>            | <u>-</u>           |
| State sources:   |                          |                         |                    |
| State school aid   | <u>-</u>                 | <u>-</u>                | <u>16,074</u>      |
| <b>Total Revenues</b>  | <u>1,583,041</u>         | <u>468,293</u>          | <u>16,074</u>      |
| <b>Expenditures</b>  |                          |                         |                    |
| Debt service:  |                          |                         |                    |
| Principal repayment  | 1,015,000                | 160,000                 | 11,080             |
| Interest and fiscal charges:                                 |                          |                         |                    |
| Interest expense   | 450,180                  | 287,173                 | 4,994              |
| Paying agent fees  | 599                      | 225                     | -                  |
| Bond issuance costs  | 74,965                   | -                       | -                  |
| Underwriter's discount                                       | <u>49,680</u>            | <u>-</u>                | <u>-</u>           |
| <b>Total Expenditures</b>                                    | <u>1,590,424</u>         | <u>447,398</u>          | <u>16,074</u>      |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <u>(7,383)</u>           | <u>20,895</u>           | <u>-</u>           |
| <b>Other Financing Sources (Uses)</b>                        |                          |                         |                    |
| Refunding bonds issued                                       | 8,280,000                | -                       | -                  |
| Bond premium   | 692,776                  | -                       | -                  |
| Payments to escrow agent                                     | <u>(9,501,166)</u>       | <u>-</u>                | <u>-</u>           |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>(528,390)</u>         | <u>-</u>                | <u>-</u>           |
| <b>Net Change in Fund Balances</b>                           | <u>(535,773)</u>         | <u>20,895</u>           | <u>-</u>           |
| <b>Fund Balances, July 1</b>                                 | <u>663,219</u>           | <u>-</u>                | <u>-</u>           |
| <b>Fund Balances, June 30</b>                                | <u><u>\$ 127,446</u></u> | <u><u>\$ 20,895</u></u> | <u><u>\$ -</u></u> |

| Totals       |              |
|--------------|--------------|
| 2006         | 2005         |
| \$ 1,979,725 | \$ 1,928,803 |
| 24,781       | 31,097       |
| 11,951       | 9,858        |
| 4,342        | 4,357        |
| 9            | 8,265        |
| 2,020,808    | 1,982,380    |
| 30,526       | 16,356       |
| 16,074       | -            |
| 2,067,408    | 1,998,736    |
| 1,186,080    | 940,000      |
| 742,347      | 943,378      |
| 824          | -            |
| 74,965       | -            |
| 49,680       | -            |
| 2,053,896    | 1,883,378    |
| 13,512       | 115,358      |
| 8,280,000    | -            |
| 692,776      | -            |
| (9,501,166)  | -            |
| (528,390)    | -            |
| (514,878)    | 115,358      |
| 663,219      | 547,861      |
| \$ 148,341   | \$ 663,219   |

## **AGENCY FUND**

*Student Activities*—to account for the collection and disbursements of monies used by the school activity clubs and groups.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2006**

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|   | <u>Balances</u><br><u>July 1, 2005</u> | <u>Additions</u>  | <u>Deductions</u> | <u>Balances</u><br><u>June 30, 2006</u> |
|---|--|-------------------|-------------------|---|
| <b>Assets</b>                                 |  |                   |                   |   |
| Cash equivalents, deposits and<br>investments | <u>\$ 285,760</u>                      | <u>\$ 297,542</u> | <u>\$ 292,260</u> | <u>\$ 291,042</u>                       |
| <b>Liabilities</b>                            |  |                   |                   |   |
| Due to student groups                         | <u>\$ 285,760</u>                      | <u>\$ 297,542</u> | <u>\$ 292,260</u> | <u>\$ 291,042</u>                       |

## **OTHER INFORMATION**



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Summary of 2005 Taxes Levied and Collected**  
**For the year ended June 30, 2006**

|  | Kent County<br>City of |                  |                   |
|--|------------------------|------------------|-------------------|
|  | Kentwood               | Wyoming          | Total             |
| <b>Taxable Valuations</b>                |                        |                  |                   |
| Operating                                | \$ 54,933,929          | \$166,534,996    | \$221,468,925     |
| Debt Service                             | 135,322,819            | 228,893,073      | 364,215,892       |
| <b>Rates (Mills)</b>                     |                        |                  |                   |
| General Fund                             |                        |                  | 18.0000           |
| 1998 Debt Service Fund                   |                        |                  | 4.2350            |
| 2005 Debt Service Fund                   |                        |                  | 1.2650            |
|  |                        |                  | <u>23.5000</u>    |
| <b>Taxes Levied 2005 Rolls</b>           |                        |                  |                   |
| General Fund                             | \$ 988,808             | \$ 2,997,627     | \$ 3,986,435      |
| 1998 Debt Service Fund                   | 573,075                | 969,348          | 1,542,423         |
| 2005 Debt Service Fund                   | 171,178                | 289,545          | 460,723           |
|  | <u>1,733,061</u>       | <u>4,256,520</u> | <u>5,989,581</u>  |
| <b>Taxes Uncollected 2005 Rolls</b>      |                        |                  |                   |
| General Fund                             | 52,440                 | 24,312           | 76,752            |
| 1998 Debt Service Fund                   | 12,360                 | 5,720            | 18,080            |
| 2005 Debt Service Fund                   | 3,691                  | 1,709            | 5,400             |
|  | <u>68,491</u>          | <u>31,741</u>    | <u>100,232</u>    |
| <b>Taxes Collected 2005 Rolls</b>        |                        |                  |                   |
| General Fund                             | 936,368                | 2,973,315        | 3,909,683         |
| 1998 Debt Service Fund                   | 560,715                | 963,628          | 1,524,343         |
| 2005 Debt Service Fund                   | 167,487                | 287,836          | 455,323           |
|  | <u>1,664,570</u>       | <u>4,224,779</u> | <u>5,889,349</u>  |
| <b>Delinquent Taxes Collected</b>        |                        |                  |                   |
| General Fund                             | 9,793                  | 29,033           | 38,826            |
| 1998 Debt Service Fund                   | 3,082                  | 8,869            | 11,951            |
|  | <u>12,875</u>          | <u>37,902</u>    | <u>50,777</u>     |
| <b>Total Taxes Collected</b>             |                        |                  |                   |
| General Fund                             | 946,161                | 3,002,348        | 3,948,509         |
| 1998 Debt Service Fund                   | 563,797                | 972,497          | 1,536,294         |
| 2005 Debt Service Fund                   | 167,487                | 287,836          | 455,323           |
|  | <u>1,677,445</u>       | <u>4,262,681</u> | <u>5,940,126</u>  |
| <b>Taxes Uncollected – June 30, 2006</b> |                        |                  |                   |
| General Fund:                            |                        |                  |                   |
| 2005                                     | \$ 52,440              | \$ 24,312        | \$ 76,752         |
| 2004                                     | 42,112                 | 10,162           | 52,274            |
| 2003                                     | 37,019                 | 34,078           | 71,097            |
|  | <u>131,571</u>         | <u>68,552</u>    | <u>200,123</u>    |
| 1998 Debt Service Fund:                  |                        |                  |                   |
| 2005                                     | 12,360                 | 5,720            | 18,080            |
| 2004                                     | 12,788                 | 3,466            | 16,254            |
| 2003                                     | 11,990                 | 12,705           | 24,695            |
|  | <u>37,138</u>          | <u>21,891</u>    | <u>59,029</u>     |
| 2005 Debt Service Fund:                  |                        |                  |                   |
| 2005                                     | 3,691                  | 1,709            | 5,400             |
|  | <u>3,691</u>           | <u>1,709</u>     | <u>5,400</u>      |
| <b>Total Taxes Uncollected</b>           | <u>\$ 172,400</u>      | <u>\$ 92,152</u> | <u>\$ 264,552</u> |

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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C P A s A N D C O N S U L T A N T S

August 11, 2006

The Board of Education  
Kelloggsville Public Schools  
Grand Rapids, Michigan

The following comments pertain to our audit of the financial records of Kelloggsville Public Schools as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

**KELLOGGSVILLE  
PUBLIC SCHOOLS**  
**Kent County, Michigan**

Auditor's Report on Compliance  
for Federal Grant Programs

For the year ended June 30, 2006

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## **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

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Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

August 11, 2006

To the Board of Education  
Kelloggsville Public Schools  
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kelloggsville Public Schools as of and for the year ended June 30, 2006, which collectively comprise Kelloggsville Public School's basic financial statements and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kelloggsville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education  
Kelloggsville Public Schools  
August 11, 2006

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kelloggsville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldrin, Nichols & Barten, P.C.*

Certified Public Accountants

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

August 11, 2006

To the Board of Education  
Kelloggsville Public Schools  
Grand Rapids, Michigan

**Compliance**

We have audited the compliance of Kelloggsville Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Kelloggsville Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kelloggsville Public School's management. Our responsibility is to express an opinion on Kelloggsville Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kelloggsville Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kelloggsville Public School's compliance with those requirements.

In our opinion, Kelloggsville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

To the Board of Education  
Kelloggsville Public Schools  
August 11, 2006

### **Internal Control Over Compliance**

The management of Kelloggsville Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kelloggsville Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kelloggsville Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Kelloggsville Public School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldrin, Nichols & Austin, P.C.*

Certified Public Accountants



## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

| <b>Federal Grantor<br/>Pass Through Grantor<br/>Program Title Grant Number</b> | <b>Federal<br/>CFDA Number</b> | <b>Approved Grant<br/>Award Amount</b> |
|--|--------------------------------|--|
| <b>U.S. Department of Education</b>  |                                |  |
| Passed through Michigan Department of<br>Education (MDE):                      |                                |  |
| Title I:   | 84.010                         |  |
| 0615300506   |                                | <u>\$271,786</u>                       |
| Title IIA:   | 84.367                         |  |
| 0605200506   |                                | <u>93,674</u>                          |
| Title IID Technology Literacy Challenge Grant:                                 | 84.318                         |  |
| 0642900506   |                                | <u>5,070</u>                           |
| Title III English Language Acquisition:  | 84.365                         |  |
| 0605800506   |                                | <u>72,511</u>                          |
| Title V:   | 84.298                         |  |
| 0602500506   |                                | <u>4,437</u>                           |
| Safe and Drug Free Schools and Communities Act:                                | 84.186                         |  |
| 062860506  |                                | <u>26,638</u>                          |
| Total Passed Through MDE   |                                | <u>474,116</u>                         |
| Passed through Kent Intermediate School District (KISD):                       |                                |  |
| Special Education Cluster:   |                                |  |
| I.D.E.A. – Flow Through:   | 84.027                         |  |
| Flow Through – 0504500405  |                                | 297,820                                |
| Flow Through – 0604500506  |                                | <u>265,106</u>                         |
| Total I.D.E.A. – Flow Through  |                                | <u>562,926</u>                         |
| I.D.E.A. – Transition:   | 84.027A                        |  |
| Transition – 060490-TS   |                                | <u>10,000</u>                          |
| Total I.D.E.A. - Transition  |                                | <u>10,000</u>                          |

| Accrued<br>(Deferred) Revenue<br>July 1, 2005 | (Memo Only)<br>Prior Year<br>Expenditures | Current Year<br>Expenditures | Current Year<br>Receipts<br>(Cash Basis) | Accrued<br>(Deferred) Revenue<br>June 30, 2006 |
|---|---|------------------------------|--|--|
|   | \$248,615                                 | \$271,786                    | \$271,786                                |  |
|   | 93,576                                    | 93,674                       | 93,674                                   |  |
|   | 6,318                                     | 5,070                        | 5,070                                    |  |
|   |   | 72,511                       | 72,511                                   |  |
|   | 6,614                                     | 4,437                        | 4,437                                    |  |
|   | 11,542                                    | 26,638                       | 26,638                                   |  |
| —   | 366,665                                   | 474,116                      | 474,116                                  | —  |
| \$98,746                                      | 297,820                                   | 265,106                      | 98,746<br>169,831                        | \$95,275                                       |
| 98,746  | 297,820                                   | 265,106                      | 268,577                                  | 95,275   |
|   | 10,000                                    | 10,000                       | 10,000                                   |  |
| —   | 10,000                                    | 10,000                       | 10,000                                   | —  |

## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

| <b>Federal Grantor<br/>Pass Through Grantor<br/>Program Title Grant Number</b> | <b>Federal<br/>CFDA Number</b> | <b>Approved Grant<br/>Award Amount</b> |
|--|--------------------------------|--|
| I.D.E.A. – Preschool:  | 84.173                         |  |
| Preschool – 0504600405   |                                | \$15,713                               |
| Preschool – 0604600506   |                                | 14,565                                 |
| Total I.D.E.A. – Preschool   |                                | 30,278                                 |
| Total Special Education Cluster  |                                | 603,204                                |
| Total Passed Through KISD  |                                | 603,204                                |
| <b>Total U.S. Department of Education</b>                                      |                                | 1,077,320                              |
| <b>U.S. Department of Health and Human Services</b>                            |                                |  |
| Passed through Kent Intermediate School District (KISD):                       |                                |  |
| School Based Medicaid  | 93.778                         | 4,310                                  |
| <b>Total U.S. Department of Health<br/>and Human Services</b>                  |                                | 4,310                                  |
| <b>U.S. Department of Agriculture Nutrition Cluster</b>                        |                                |  |
| Passed through Michigan Department of Education (MDE):                         |                                |  |
| National School Lunch Program:   |                                |  |
| Lunches:   |                                |  |
| Section 4 – Total Servings – 1950  | 10.555                         | 57,155                                 |
| Section 11 – Free and Reduced – 1960   |                                | 338,701                                |
| Total Lunches  |                                | 395,856                                |
| Breakfast:   |                                |  |
| Total Servings – 1970  | 10.553                         | 19,160                                 |
| Free and Reduced – 1970  |                                | 89,169                                 |
| Total Breakfast  |                                | 108,329                                |
| Special Milk – 1940  | 10.556                         | 793                                    |
| Snack  | 10.555                         | 6,235                                  |

| Accrued<br>(Deferred) Revenue<br>July 1, 2005 | (Memo Only)<br>Prior Year<br>Expenditures | Current Year<br>Expenditures | Current Year<br>Receipts<br>(Cash Basis) | Accrued<br>(Deferred) Revenue<br>June 30, 2006 |
|---|---|------------------------------|--|--|
| \$2,370                                       | \$15,713                                  | \$14,565                     | \$2,370<br>14,565                        |  |
| 2,370   | 15,713                                    | 14,565                       | 16,935                                   | —  |
| 101,116                                       | 323,533                                   | 289,671                      | 295,512                                  | \$95,275                                       |
| 101,116                                       | 323,533                                   | 289,671                      | 295,512                                  | 95,275   |
| 101,116                                       | 690,198                                   | 763,787                      | 769,628                                  | 95,275   |
|   | 1,120                                     | 4,310                        | 4,310                                    |  |
| —   | 1,120                                     | 4,310                        | 4,310                                    | —  |
|   | 54,007<br>302,537                         | 57,155<br>338,701            | 57,155<br>338,701                        |  |
| —   | 356,544                                   | 395,856                      | 395,856                                  | —  |
|   | 18,724<br>84,554                          | 19,160<br>89,169             | 19,160<br>89,169                         |  |
| —   | 103,278                                   | 108,329                      | 108,329                                  | —  |
|   | 873                                       | 793                          | 793                                      |  |
|   | 1,812                                     | 6,235                        | 6,235                                    |  |

## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

| <b>Federal Grantor<br/>Pass Through Grantor<br/>Program Title Grant Number</b> | <b>Federal<br/>CFDA Number</b> | <b>Approved Grant<br/>Award Amount</b> |
|--|--------------------------------|--|
| Summer Food Service:<br>050900/051900  | 10.559                         | \$3,317                                |
| USDA Commodities:<br>Bonus Commodities   | 10.550                         | 1,261                                  |
| Entitlement Commodities  |                                | 22,642                                 |
| Total USDA Commodities   |                                | 23,903                                 |
| <b>Total U.S. Department of Agriculture<br/>(Passed Through MDE)</b>           |                                | 538,433                                |
| <b>Total Federal Financial Assistance</b>                                      |                                | <b>\$1,620,063</b>                     |

- Notes:
1. This schedule was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.
  2. The amounts reported on the R7120, Grant Section Auditors Report, reconcile with this schedule.
  3. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities.

| Accrued<br>(Deferred) Revenue<br>July 1, 2005 | (Memo Only)<br>Prior Year<br>Expenditures | Current Year<br>Expenditures | Current Year<br>Receipts<br>(Cash Basis) | Accrued<br>(Deferred) Revenue<br>June 30, 2006 |
|---|---|------------------------------|--|--|
|   |   | \$3,317                      | \$3,317                                  |  |
|   | \$3,157                                   | 1,261                        | 1,261                                    |  |
|   | 47,086                                    | 22,642                       | 22,642                                   |  |
| —   | 50,243                                    | 23,903                       | 23,903                                   | —  |
| —   | 512,750                                   | 538,433                      | 538,433                                  | —  |
| \$101,116                                     | \$1,204,068                               | \$1,306,530                  | \$1,312,371                              | \$95,275                                       |

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

#### **Section I - Summary of Auditor's Results**

##### ***Financial Statements***

Type of auditors' report issued:

Qualified

Internal control over financial reporting:

- Material weakness(es) identified?            Yes       X       No
- Reportable condition(s) identified that are not considered to be material weaknesses?            Yes       X       None reported
- Noncompliance material to financial statements noted?            Yes       X       No

##### ***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified:            Yes       X       No
- Reportable condition(s) identified that are not considered to be material weakness(es)?            Yes       X       None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

           Yes       X       No

Identification of programs audited:

I.D.E.A. Cluster:

84.027 Flow Through

84.027A Transition

84.173 Preschool

84.367 Title II A

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

      X       Yes            No

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

#### **Section II - Financial Statement Findings**

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No matters reported.

#### **Section III - Federal Award Findings and Questioned Costs**

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No matters reported.



## ***NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

#### **Note A – Federal Income Reconciliation**

|  | <b>Grant<br/>Expenditures<br/>Schedule of<br/>Expenditures<br/>of Federal<br/>Awards<br/>Assistance</b> | <b>Federal<br/>Revenue<br/>Per<br/>Financial<br/>Statements</b> | <b>Difference</b> |
|--|---|---|-------------------|
| Title I  | \$271,786   | \$271,786   |                   |
| Title IIA  | 93,674  | 93,674  |                   |
| Title IID-Technology Literacy Challenge          | 5,070   | 5,070   |                   |
| Title III  | 72,511  | 72,511  |                   |
| Title V  | 4,437   | 4,437   |                   |
| Safe and Drug Free School<br>and Communities Act | 26,638  | 26,638  |                   |
| I.D.E.A.   | 289,671   | 289,671   |                   |
| School Based Medicaid                            | 4,310   | 4,310   |                   |
| Nutrition Cluster                                | 538,433   | 538,433   |                   |
|  | <b>\$1,306,530</b>  | <b>\$1,306,530</b>  | <b>—</b>          |

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kelloggsville Public Schools:

### **Auditors Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kelloggsville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kelloggsville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kelloggsville Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kelloggsville Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kelloggsville Public School's compliance with those requirements.

### **Significant Accounting Policies**

The District's elected officials and management have the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise the District regarding the appropriateness of accounting policies and their application. The significant accounting policies used by Kelloggsville Public Schools are described in Note A in the Notes to Basic Financial Statements.

### **Difficulties Encountered In Performing The Audit**

We encountered no significant difficulties in performing the audit of the financial statements of Kelloggsville Public Schools for the year ended June 30, 2006. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

#### **General Fund**

1. \$57,342 to write off uncollected 2002 delinquent personal property taxes.
2. \$37,926 to record 2005 delinquent personal property taxes receivable.
3. \$222,692 to classify current year expenditures out of reserved fund balance.
4. \$111,737 to correct the classification of the Medicaid reimbursements.

#### **Food Service Fund**

1. \$23,903 to record entitlement and bonus commodities received during the year.

### **Proposed Audit Adjustments**

There were no material proposed audit adjustments not recorded by Kelloggsville Public Schools.

### **Suggestions And Recommendations**

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kelloggsville Public Schools to the Superintendent and Accounting Supervisor as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

## Other Comments

The General Fund Balance of the District decreased by \$171,014 to \$4,936,035 at June 30, 2006. This balance represents approximately 26.7 percent of the District's 2006-07 budgeted expenditures (down from 28 percent at June 30, 2005). Maintaining a fund balance of at least 20 percent of the ensuing year's expenditure budget is advisable for Kelloggsville Public Schools, as that percentage seems to be a dividing line between Districts that are required to borrow for cash-flow purposes (and incur interest expenses and loan processing fees) and those Districts that are not required to borrow. This level of fund balance also gives the District more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the District.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kelloggsville Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Kelloggsville Public Schools Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kelloggsville Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants